

Message Text

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64

ACTION EB-07

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INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

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R 051200Z SEP 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 1322

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

UNCLAS BRASILIA 7732

E.O. 11652: N/A

TAGS: EFIN, BR

SUBJECT: BRAZIL ADOPTS INCENTIVES TO STIMULATE
EXPORTS OF SERVICES

1. BY VIRTUE OF A DECREE-LAW, SIGNED BY PRESIDENT
GEISEL ON SEPTEMBER 1, BRAZIL HAS ENACTED THE FOLLOWING
FISCAL INCENTIVES TO STIMULATE EXPORTS OF SERVICES:

A. JURIDICAL ENTITIES DOMICILED IN BRAZIL MAY EXCLUDE
FROM THEIR TAXABLE PROFIT, SUBJECT TO BRAZIL'S INCOME
TAX, INCOME EARNED FROM THE SALE OF SERVICES ABROAD;
THE LIMIT ON SUCH DEDUCTIONS IS THE AMOUNT OF FOREIGN
CURRENCY ACTUALLY REPATRIATED TO BRAZIL FROM THE SALE
OF THESE SERVICES;

B. SALES TO BRAZILIAN ENGINEERING FIRMS OF LOCALLY-
PRODUCED EQUIPMENT, VEHICLES AND OTHER INSTRUMENTS AND
ALL PARTS, WHICH ARE TO BE EXPORTED TO EXECUTE SERVICE
CONTRACTS ABROAD, WILL BE TREATED AS EXPORTS AND
ELIGIBLE FOR ALL EXISTING EXPORT INCENTIVES;

C. THE MINISTRY OF FINANCE MAY SUSPEND ALL APPLI-
CABLE IMPORT DUTIES ON IMPORTS OF MACHINERY, EQUIP-
MENT, AND VEHICLES AND ALL PARTS, WHICH HAVE NO
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DOMESTIC SIMILARS, IF SUCH ITEMS ARE TO BE USED TO

EXECUTE A SERVICE CONTRACT ABROAD.

D. THE MINISTRY OF FINANCE MAY EXTEND, DIRECTLY OR THROUGH INSURANCE COMPANIES, A NATIONAL TREASURY GUARANTEE AGAINST THE RISK OF DEFAULT ON SERVICE CONTRACTS ENTERED INTO BY BRAZILIAN FIRMS TO PROVIDE SERVICES, EXECUTE WORKS, AND SUPPLY MERCHANDISE ABROAD.

E. PROFITS EARNED BY BRAZILIAN ENTITIES FROM OPERATIONS ON FOREIGN COMMODITIES MARKETS ARE TO BE EXCLUDED FROM TAXABLE DOMESTIC INCOME.

F. FINALLY, THE DECREE REITERATES THAT PAYMENTS BY BRAZILIAN ENTITIES TO FOREIGN FIRMS FOR TECHNICAL SERVICES AND TECHNICAL AND ADMINISTRATIVE ASSISTANCE ARE SUBJECT TO A 25 PERCENT WITHHOLDING TAX. (THE REASON FOR THIS FINAL POINT WAS TO CLARIFY SOME RECENT CONFUSION, WHICH RESULTED IN COURT ACTIONS, ABOUT THE APPLICABILITY OF THIS TAX).

2. COMMENT: THE OBJECTIVE OF THIS DECREE IS TO ELIMINATE A DISTORTION IN BRAZIL'S EXPORT INCENTIVE PROGRAMS, A DISTORTION WHICH WAS BECOMING INCREASINGLY SIGNIFICANT AS BRAZIL GAINS GREATER CAPACITY TO EXPORT SERVICES. WHILE A NUMBER OF INCENTIVES ARE CURRENTLY IN FORCE TO STIMULATE THE EXPORTATION OF MERCHANDISE, EXPORTS OF SERVICES WERE NOT BENEFITTING FROM SIMILAR INCENTIVES. SINCE BRAZIL HAS LARGE DEFICIT IN THE SERVICES ACCOUNT (WHICH THIS YEAR WILL BE OVER \$3.0 BILLION), IT IS HOPED THAT BY INCREASING THE EXPORTS OF SERVICES THIS GAP CAN BE NARROWED. ALTHOUGH AT THE PRESENT TIME BRAZIL IS NOT A MAJOR EXPORTER OF SERVICES, IT IS BECOMING AN INCREASINGLY IMPORTANT COMPETITOR OF TRADITIONAL SUPPLIERS IN THE LATIN AMERICAN AND AFRICAN MARKETS. FOR INSTANCE, BRAZIL IS ALREADY INVOLVED IN SIZEABLE CONSTRUCTION PROJECTS BOTH IN AFRICA AND LATIN AMERICA.
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